Independent School District No. 879
Delano, Minnesota

Financial Statements

June 30, 2020

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Independent School District No. 879
Board of Education and Administration
June 30, 2020

Board of Education	Position	Term Expires
Lisa Seguin	Chairperson	December 31, 2022
Corey Black	Vice Chairperson	December 31, 2022
Rachel Depa	Clerk	December 31, 2020
Alan Briesemeister	Treasurer	December 31, 2020
Susan Roeser	Director	December 31, 2020
Amy Johnson	Director	December 31, 2020
Jennie Rosenow	Director	December 31, 2022

Administration	
Matthew Schoen	Superintendent
Mary Reeder	Business Manager

Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2020, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 84
As discussed in Note 9 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which such partial information was derived.

We also have previously audited the District's 2019 basic financial statements and our report, dated October 31, 2019, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Minneapolis, Minnesota
November 10, 2020

Independent School District No. 879
Management's Discussion and Analysis

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2019-2020) and the prior year (2018-2019) is required to be presented in the MD&A.

Financial Highlights

- *General Fund 01:* The overall fund balance decreased by $273,428.
- *Food Service Fund 02:* The overall fund balance decreased by $7,715.
- *Community Service Fund 04:* The overall fund balance decreased by $17,787.
- *Debt Service Fund 07:* The overall fund balance decreased by $145,565.

Overview of the Financial Statements

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

A. Management's Discussion and Analysis
B. Basic Financial Statements
    1. Government-Wide Financial Statements
    2. Fund Financial Statements

Overview of the Financial Statements (Continued)

Government-Wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are shown in one category:

- ***Governmental activities*** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- ***Governmental funds*** – Most of the District's basic services are included in governmental funds, which generally focus on:

  (1) How cash and other financial assets that can readily be converted to cash flow in and out, and

Overview of the Financial Statements (Continued)

Fund Financial Statements (Continued)

***Governmental funds* (Continued)**
(2) The balances left at year-end that are available for spending.
Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- **Fiduciary funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as A Whole

Net Position
Table A-1

	Governmental Activities		Percentage
	2020	2019	Change
Current and other assets	$ 23,669,297	$ 25,745,816	-8.07 %
Capital assets	82,173,678	83,360,608	-1.42
Total assets	105,842,975	109,106,424	-2.99
Deferred outflows of resources	13,674,134	19,484,768	-29.82
Current liabilities	3,629,963	4,825,267	-24.77
Long-term liabilities	71,998,641	75,161,263	-4.21
Net pension and OPEB liability	21,184,840	20,315,938	4.28
Total liabilities	96,813,444	100,302,468	-24.70
Deferred inflows of resources	28,807,367	33,828,495	-14.84
Net Position			
Invested in capital assets, net of related debt	10,229,127	8,252,880	23.95
Restricted	3,184,686	3,599,246	-11.52
Unrestricted	(19,517,515)	(17,391,897)	12.22
Net position	$ (6,103,702)	$ (5,539,771)	10.18 %

The District's combined net position was $(6,103,702) on June 30, 2020, a decrease of $563,931, which was due in large part to the pension expense related to the state-wide plans.

Financial Analysis of the District as A Whole (Continued)

Changes in Net Position

The following Table A-2 presents the Change in Net Position of the District:

Change in Net Position
Table A-2

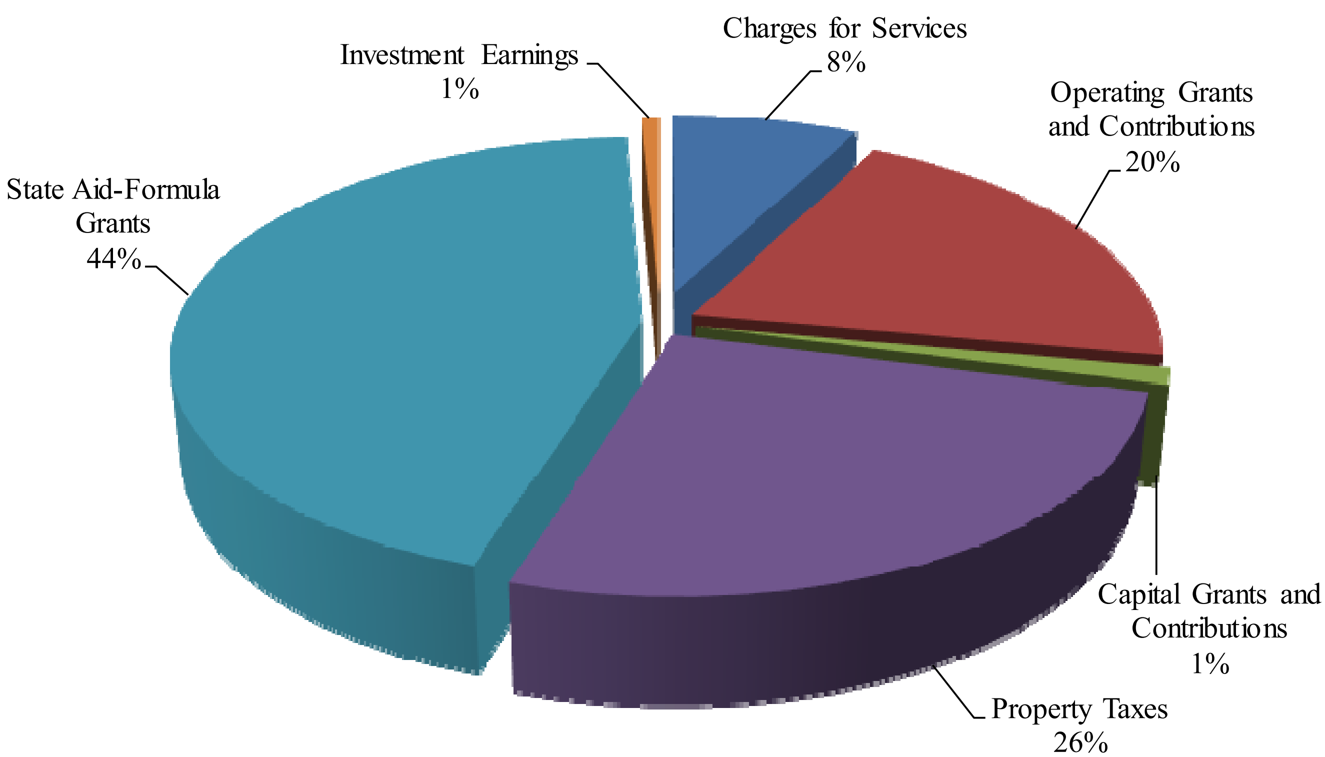
	Governmental Activities for the Fiscal Year Ended June, 30		Total Percent Chang
	2020	2019	
Revenues			
Program revenues			
Charges for services	$ 2,834,430	$ 3,276,979	-13.50
Operating grants and contributions	7,570,957	7,839,330	-3.42
Capital grants and contributions	437,960	508,299	-13.84
General Revenues			
Property taxes	9,624,610	9,734,939	-1.13
State aid-formula grants	16,597,620	15,489,868	7.15
Investment earnings	257,077	421,123	-38.95
Other	3,904	75,471	-94.83
Total revenues	37,326,558	37,346,009	-0.05
Expenditures			
Administration	1,398,389	1,015,624	37.69
District support services	1,065,936	1,182,370	-9.85
Elementary and secondary regular instruction	15,036,204	9,028,646	66.54
Vocational education instruction	272,883	253,151	7.79
Special education instruction	4,687,827	3,516,460	33.31
Instructional support services	1,770,575	1,214,632	45.77
Pupil support services	2,416,311	2,291,837	5.43
Sites and buildings	4,356,696	5,679,206	-23.29
Fiscal and other fixed cost programs	151,249	133,575	13.23
Food service	968,933	1,120,979	-13.56
Community education and services	2,262,088	2,129,538	6.22
Unallocated depreciation	1,458,291	815,934	78.73
Interest and fiscal charges on long-term debt	2,048,540	2,156,487	-5.01
Total expenditures	37,893,922	30,538,439	24.09
Increase/(decrease) in net position	(567,364)	6,807,570	-108.33
Beginning of year net position	(5,539,771)	(12,347,341)	-55.13
Change in accounting principle (Note 9)	3,433	-	0.00
Net position, beginning restated	(5,536,338)	(12,347,341)	-55.16
End of year net position	$ (6,103,702)	$ (5,539,771)	10.18

Financial Analysis of the District as A Whole (Continued)

District's Revenues

The District's total revenues were $37,326,558 for the year ended June 30, 2020. Property taxes and state aid-formula grants accounted for 70% of total revenue for the year. (See Figure A-1). The remaining 30% came from other program revenues (charges for services and operating and capital grants and contributions) and investment earnings.

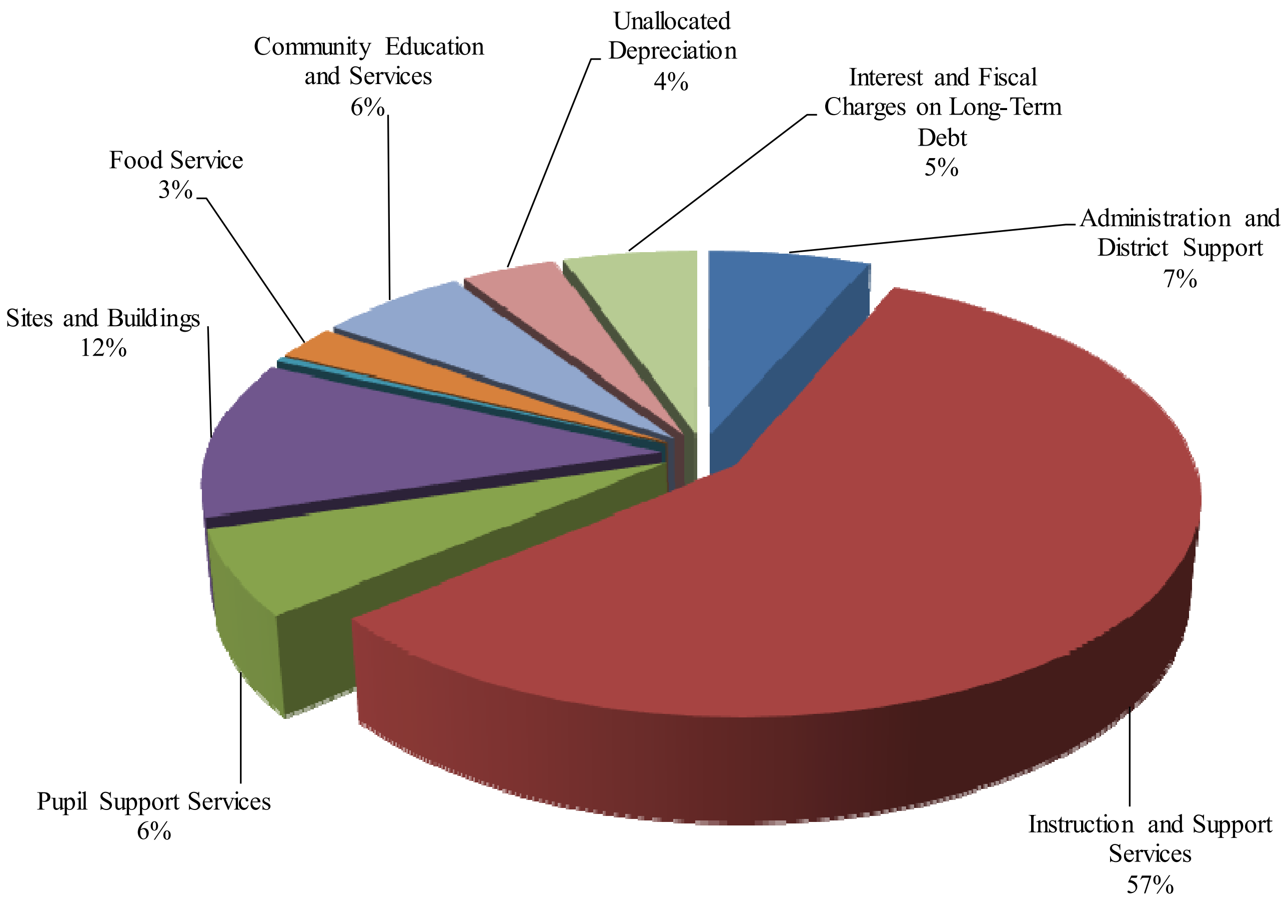
Figure A-1 Sources of District's Revenues for Fiscal 2020



Financial Analysis of the District as A Whole (Continued)

District's Expenses

Figure A-2 District Expenses for Fiscal 2020



The total costs of all programs and services were $37,893,922 for fiscal year 2020. The District's expenses are predominately related to instruction and pupil support services (63%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 5%, and 15% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was $37,893,922.

- Some of the cost was paid by the users of the District's programs - $2,834,430.
- The federal and state governments subsidized certain programs with grants and contributions – $8,008,917.
- Most of the District's costs - $27,058,850, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota.

Financial Analysis of the District as A Whole (Continued)

District's Expenses (Continued)

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 63% of those resources are spent on instruction and support services associated with education.

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

Net Cost of Governmental Activities
Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2020	2019	2019-2020	2020	2019	2019-2020
Administration	$ 1,398,389	$ 1,015,624	37.69 %	$ 1,380,618	$ 958,563	44.03 %
District support services	1,065,936	1,182,370	-9.85	1,034,789	1,157,892	-10.63
Elementary and secondary regular education	15,036,204	9,028,646	66.54	12,840,837	6,703,944	91.54
Vocational education instruction	272,883	253,151	7.79	261,744	239,421	9.32
Special education instruction	4,687,827	3,516,460	33.31	1,458,605	276,117	428.26
Instructional support services	1,770,575	1,214,632	45.77	1,310,899	843,521	55.41
Pupil support services	2,416,311	2,291,837	5.43	1,368,753	1,238,702	10.50
Sites and buildings	4,356,696	5,679,206	-23.29	3,441,068	4,606,356	-25.30
Fiscal and other fixed cost programs	151,249	133,575	13.23	151,249	133,575	13.23
Food service	968,933	1,120,979	-13.56	27,662	19,065	45.09
Community education and services	2,262,088	2,129,538	6.22	403,219	(10,132)	-4079.66
Unallocated depreciation	1,458,291	815,934	78.73	1,458,291	815,934	78.73
Interest and fiscal charges on long-term debt	2,048,540	2,156,487	-5.01	1,912,841	1,930,873	-0.93
Total	$ 37,893,922	$ 30,538,439	24.09 %	$ 27,050,575	$ 18,913,831	43.02 %

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

Financial Analysis of the District's Funds

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $11,291,546, which included a change in accounting principle of $3,433, for a decrease of $751,326 over last year's ending fund balance of $12,042,872.

Revenues and other financing sources for the District's governmental funds were $37,675,622, while total expenditures and other financing uses were $38,430,381, for a negative net change of $754,759.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 and beyond, including transportation services and capital outlay projects.

General Fund revenues are outlined in Table A-4 below:

Summary of General Fund Revenues
Table A-4

	Year Ended June 30, 2020	Year Ended June 30, 2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	$ 4,558,989	$ 4,636,407	$ (77,418)	-1.67 %
Other local and county sources	1,117,141	1,475,661	(358,520)	-24.30
State sources	22,885,210	22,580,852	304,358	1.35
Federal sources	165,901	252,264	(86,363)	-34.24
Sales and other conversion of assets	2,490	39,396	(36,906)	-93.68
Total General Fund revenue	$ 28,729,731	$ 28,984,580	$ (254,849)	-0.88 %

Revenues from the General Fund totaled $28,729,731, a decrease of .88% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

State sources of revenue increased due to general education aid revenue, enrollment and special education revenue. Other local and county sources decreased due to loss of revenue from spring athletics and activities canceled due to COVID-19. Federal sources decreased due to fewer expenses due to COVID-19; federal revenue carries forward to the next fiscal year.

Financial Analysis of the District's Funds (Continued)

General Fund (Continued)

General Fund expenditures are itemized in Table A-5:

Summary of General Fund Expenditures
Table A-5

	Year Ended June 30, 2020	Year Ended June 30, 2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 15,494,038	$ 14,944,182	$ 549,856	3.68 %
Employee benefits	6,396,730	6,163,353	233,377	3.79
Purchased services	4,596,028	4,934,609	(338,581)	-6.86
Supplies and materials	1,455,215	1,348,710	106,505	7.90
Capital expenditures	1,475,304	1,222,348	252,956	20.69
Other expenditures	210,131	180,353	29,778	16.51
Total General Fund expenditures	$ 29,627,446	$ 28,793,555	$ 833,891	2.90 %

Total General Fund expenditures increased by $833,891 or 2.90% over the previous year.

Salaries increased due to contract settlements. Employee benefits increased due benefits associated with contract changes. Purchased services decreased due to COVID-19 distance learning which decreased transportation, utilities and special education salaries and benefits of purchased services staff. Capital expenditures decreased due to new Language Arts curriculum that was purchased in the 2018-2019 school year. Capital expenditures increased due to new assessment from the City of Delano for the water main replacement done for the Intermediate School project; this assessment is in place for 20 years.

In 2019-2020, the General Fund recorded a decrease of $273,428. The unassigned fund balance closed at $6,459,490, which is 21.8% of General Fund expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2020, the District is in compliance with that fund balance goal.

General Fund Budgetary Highlights

Actual revenues were $129,340 over the final budget, a 0.45% variance. Actual expenditures were $332,686 under budget, which is a variance of 1.1%. The variance between original and final budgeted revenue amounts was due to under budgeting for donations that came in June that had not been budgeted, as well as additional general education and special education revenue from the state. The expenditure budget variance is due to unspent Staff Development, building and department supply budgets, donated funds, capital and LTFM funds.

Debt Service Fund

The Debt Service Fund expenditures exceeded revenues by $145,565 in 2019-2020.

Capital Assets and Debt Administration

Capital Assets

The District investment in capital assets for its governmental activities amounts to $82,173,678 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

Capital Assets - Governmental Activities
Table A-6

	2020	2019	Percentage Change
Land	$ 1,022,151	$ 1,022,151	0.00 %
Land improvements	6,027,587	5,950,987	1.29
Buildings	92,951,419	40,811,578	127.76
Equipment	3,186,932	2,900,671	9.87
Capital lease	3,178,526	3,178,525	0.00
Construction in progress	-	51,679,601	-100.00
Less accumulated depreciation	(24,192,937)	(22,182,905)	9.06
Total	$ 82,173,678	$ 83,360,608	-1.42 %

Long-Term Liabilities

At year-end, the District had $71,598,441 in total long-term debt, a decrease of 4.74% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 4 of the financial statements.)

Capital Assets and Debt Administration (Continued)

Long-Term Liabilities (Continued)

Long-Term Liabilities
Table A-7

	2020	2019	Percentage Change
General obligation bonds payable	$ 67,995,000	$ 71,010,000	-4.25 %
Bond premium payable	2,821,850	3,121,964	-9.61
Capital lease payable	727,501	975,764	-25.44
Special assessments payable	400,200	-	0.00
Compensated absences payable	54,090	53,535	1.04
Total	$ 71,998,641	$ 75,161,263	-4.21 %

Factors Bearing on the District's Future

The District had a healthy General Fund balance at the end of the 2019-2020 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning.

Enrollment will continue to be monitored; enrollment in 2019-2020 decreased by 16 students from 2018-2019; the District is projecting enrollment to decrease by 68 students in the 2020-2021 school year due to many families choosing non-public and homeschooling options due to COVID-19. The district does expect a large majority of those students to return the following year.

Finally, the District will continue to strive to achieve its mission statement of "Systemic growth toward educational excellence for every learner".

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

BASIC FINANCIAL STATEMENTS

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Independent School District No. 879
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets	
Cash and investments	$ 16,034,749
Current property taxes receivable	4,646,910
Delinquent property taxes receivable	232,486
Accounts receivable	23,782
Interest receivable	97,764
Due from Department of Education	2,374,908
Due from Federal Government through Department of Education	9,602
Due from other Minnesota school districts	18,012
Due from other governmental units	3,384
Inventory	57,612
Prepaid items	36,166
Equity interest in joint venture	133,922
Capital assets, not being depreciated	
Land	1,022,151
Capital assets, net of accumulated depreciation	
Land improvements	4,017,140
Buildings	75,844,826
Machinery and equipment	1,289,561
Total assets	105,842,975
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	13,169,400
Deferred outflows of resources related to other post employment benefits (OPEB)	504,734
Total deferred outflows of resources	13,674,134
Total assets and deferred outflows of resources	$ 119,517,109
Liabilities	
Accounts payable	$ 188,976
Salaries and benefits payable	2,250,927
Interest payable	908,073
Due to other Minnesota school districts	59,118
Due to other governmental units	132,525
Unearned revenue	90,344
Bonds payable	
Payable within one year	3,145,000
Payable after one year	67,671,850
Capital lease payable	
Payable within one year	261,834
Payable after one year	465,667
Special assessment payable	
Payable within one year	13,800
Payable after one year	386,400
Vacation payable	
Payable within one year	54,090
Net pension liability	16,867,658
Total OPEB liability	4,317,182
Total liabilities	96,813,444
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	9,319,673
Deferred inflows of resources related to pensions	19,444,798
Deferred inflows of resources related to other post employment benefits (OPEB)	42,896
Total deferred inflows of resources	28,807,367
Net Position	
Net investment in capital assets	10,229,127
Restricted for	
Debt service	294,105
Capital projects	84,458
Other purposes	2,806,123
Unrestricted	(19,517,515)
Total net position	(6,103,702)
Total liabilities, deferred inflows of resources, and net position	$ 119,517,109

See notes to the financial statements.

Independent School District No. 879
Statement of Activities
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 1,398,389	$ -	$ 17,771	$ -	$ (1,380,618)
District support services	1,065,936	17,867	13,280	-	(1,034,789)
Elementary and secondary regular instruction	15,036,204	562,518	1,632,657	192	(12,840,837)
Vocational education instruction	272,883	-	11,139	-	(261,744)
Special education instruction	4,687,827	35,035	3,194,187	-	(1,458,605)
Instructional support services	1,770,575	-	459,676	-	(1,310,899)
Pupil support services	2,416,311	-	1,047,558	-	(1,368,753)
Sites and buildings	4,356,696	-	477,860	437,768	(3,441,068)
Fiscal and other fixed cost programs	151,249	-	-	-	(151,249)
Food service	968,933	536,444	404,827	-	(27,662)
Community education and services	2,262,088	1,682,566	176,303	-	(403,219)
Unallocated depreciation	1,458,291	-	-	-	(1,458,291)
Interest and fiscal charges on long-term debt	2,048,540	-	135,699	-	(1,912,841)
Total governmental activities	$ 37,893,922	$ 2,834,430	$ 7,570,957	$ 437,960	(27,050,575)

General revenues	
Taxes	
Property taxes, levied for general purposes	4,584,191
Property taxes, levied for community service	291,702
Property taxes, levied for debt service	4,748,717
State aid-formula grants	16,597,620
Investment income	257,077
Net income (loss) from joint venture	3,904
Total general revenues	26,483,211
Change in net position	(567,364)
Net position - beginning	(5,539,771)
Change in accounting principle (Note 9)	3,433
Net position - beginning, restated	(5,536,338)
Net position - ending	$ (6,103,702)

See notes to financial statements.

Independent School District No. 879
Balance Sheet - Governmental Funds
June 30, 2020

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 11,666,037	$ 3,562,683	$ 88,385	$ 717,644	$ 16,034,749
Current property taxes receivable	2,028,122	2,497,751	-	121,037	4,646,910
Delinquent property taxes receivable	106,897	117,475	-	8,114	232,486
Accounts receivable	22,741	-	-	1,041	23,782
Interest receivable	97,764	-	-	-	97,764
Due from Department of Education	2,298,541	45,260	-	31,107	2,374,908
Due from Federal Government through Department of Education	9,602	-	-	-	9,602
Due from other Minnesota school districts	10,475	-	-	7,537	18,012
Due from other governmental units	3,384	-	-	-	3,384
Inventory	7,632	-	-	49,980	57,612
Prepaid items	35,393	-	-	773	36,166
Total assets	$ 16,286,588	$ 6,223,169	$ 88,385	$ 937,233	$ 23,535,375
Liabilities					
Accounts payable	$ 182,667	$ -	$ 3,927	$ 2,382	$ 188,976
Salaries and benefits payable	2,163,414	-	-	87,513	2,250,927
Due to other Minnesota school districts	59,118	-	-	-	59,118
Due to other governmental units	130,546	-	-	1,979	132,525
Unearned revenue	-	-	-	90,344	90,344
Total liabilities	2,535,745	-	3,927	182,218	2,721,890
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	4,046,413	5,020,991	-	252,269	9,319,673
Unavailable revenue - delinquent property taxes	93,002	102,205	-	7,059	202,266
Total deferred inflows of resources	4,139,415	5,123,196	-	259,328	9,521,939
Fund Balances					
Nonspendable	43,025	-	-	50,753	93,778
Restricted	2,303,377	1,099,973	84,458	444,934	3,932,742
Committed	75,731	-	-	-	75,731
Assigned	729,805	-	-	-	729,805
Unassigned	6,459,490	-	-	-	6,459,490
Total fund balances	9,611,428	1,099,973	84,458	495,687	11,291,546
Total liabilities, deferred inflows of resources, and fund balances	$ 16,286,588	$ 6,223,169	$ 88,385	$ 937,233	$ 23,535,375

See notes to financial statements.

Independent School District No. 879
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2020

Total fund balance - governmental funds	$ 11,291,546
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current assets.	
Equity interest in joint venture - Wright Technical Center	133,922
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	106,366,615
Less accumulated depreciation	(24,192,937)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(67,995,000)
Capital lease payable	(727,501)
Special assessment payable	(400,200)
Net premium on bonds payable	(2,821,850)
Vacation payable	(54,090)
Total OPEB liability	(4,317,182)
Net pension liability	(16,867,658)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(19,444,798)
Deferred outflows of resources related to pensions	13,169,400
Deferred inflows of resources related to OPEB	(42,896)
Deferred outflows of resources related to OPEB	504,734
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	202,266
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(908,073)
Total net position - governmental activities	$ (6,103,702)

See notes to financial statements.

Independent School District No. 879
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2020

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 4,558,989	$ 4,721,492	$ -	$ 289,898	$ 9,570,379
Other local and county revenues	1,117,141	25,328	10,574	1,660,347	2,813,390
Revenue from state sources	22,885,210	463,868	-	192,970	23,542,048
Revenue from federal sources	165,901	-	-	361,141	527,042
Sales and other conversion of assets	2,490	-	-	595,986	598,476
Total revenues	28,729,731	5,210,688	10,574	3,100,342	37,051,335
Expenditures					
Current					
Administration	1,269,575	-	-	-	1,269,575
District support services	779,060	-	-	-	779,060
Elementary and secondary regular instruction	13,778,351	-	-	-	13,778,351
Vocational education instruction	261,427	-	-	-	261,427
Special education instruction	4,385,582	-	-	-	4,385,582
Instructional support services	1,649,881	-	-	-	1,649,881
Pupil support services	2,368,689	-	-	-	2,368,689
Sites and buildings	3,468,417	-	162,716	-	3,631,133
Fiscal and other fixed cost programs	151,249	-	-	-	151,249
Food service	-	-	-	952,415	952,415
Community education and services	-	-	-	2,137,547	2,137,547
Capital outlay					
Administration	353	-	-	-	353
District support services	272,620	-	-	-	272,620
Elementary and secondary regular instruction	63,260	-	-	-	63,260
Special education instruction	2,725	-	-	-	2,725
Instructional support services	8,715	-	-	-	8,715
Pupil support services	616	-	-	-	616
Sites and buildings	843,933	-	158,122	-	1,002,055
Community education and services	-	-	-	35,882	35,882
Debt service					
Principal	262,063	3,015,000	-	-	3,277,063
Interest and fiscal charges	60,930	2,341,253	-	-	2,402,183
Total expenditures	29,627,446	5,356,253	320,838	3,125,844	38,430,381
Excess of revenues over (under) expenditures	(897,715)	(145,565)	(310,264)	(25,502)	(1,379,046)
Other Financing Sources (Uses)					
Insurance recoveries	210,287	-	-	-	210,287
Special assessment issuance	414,000	-	-	-	414,000
Total other financing sources (uses)	624,287	-	-	-	624,287
Net change in fund balances	(273,428)	(145,565)	(310,264)	(25,502)	(754,759)
Fund Balances					
Beginning of year	9,881,443	1,245,538	394,722	521,169	12,042,872
Change in accounting principle (Note 9)	3,413	-	-	20	3,433
Beginning of year, restated	9,884,856	1,245,538	394,722	521,189	12,046,305
End of year	$ 9,611,428	$ 1,099,973	$ 84,458	$ 495,687	$ 11,291,546

See notes to financial statements.

Independent School District No. 879
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities -
Governmental Funds
Year Ended June 30, 2020

Net change in fund balances - total governmental funds	$ (754,759)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.	3,904
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	849,579
Depreciation expense	(2,036,509)
Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(555)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	3,277,063
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	53,529
Proceeds from the issuance of debt is recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	(414,000)
Premiums and discounts are amortized over the life of the bond on the statement of net position.	300,114
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(150,051)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(1,749,910)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	54,231
Change in net position - governmental activities	$ (567,364)

Independent School District No. 879
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 4,567,488	$ 4,504,167	$ 4,558,989	$ 54,822
Other local and county revenues	702,105	1,011,253	1,117,141	105,888
Revenue from state sources	22,681,095	22,886,509	22,885,210	(1,299)
Revenue from federal sources	226,000	195,972	165,901	(30,071)
Sales and other conversion of assets	-	2,490	2,490	-
Total revenues	28,176,688	28,600,391	28,729,731	129,340
Expenditures				
Current				
Administration	1,305,697	1,374,858	1,269,575	(105,283)
District support services	836,309	810,182	779,060	(31,122)
Elementary and secondary regular instruction	13,272,612	13,963,613	13,778,351	(185,262)
Vocational education instruction	333,394	278,305	261,427	(16,878)
Special education instruction	4,545,096	4,484,823	4,385,582	(99,241)
Instructional support services	2,048,293	1,695,489	1,649,881	(45,608)
Pupil support services	2,391,278	2,393,671	2,368,689	(24,982)
Sites and buildings	4,161,419	3,637,101	3,468,417	(168,684)
Fiscal and other fixed cost programs	147,200	152,450	151,249	(1,201)
Capital outlay				
Administration	9,347	4,837	353	(4,484)
District support services	324,230	288,694	272,620	(16,074)
Elementary and secondary regular instruction	39,000	85,040	63,260	(21,780)
Special education instruction	-	2,725	2,725	-
Instructional support services	14,100	13,344	8,715	(4,629)
Pupil support services	1,100	1,200	616	(584)
Sites and buildings	75,000	447,696	843,933	396,237
Debt service				
Principal	285,729	291,285	262,063	(29,222)
Interest and fiscal charges	40,375	34,819	60,930	26,111
Total expenditures	29,830,179	29,960,132	29,627,446	(332,686)
Excess of revenues over (under) expenditures	(1,653,491)	(1,359,741)	(897,715)	462,026
Other Financing Sources (Uses)				
Insurance recoveries	-	210,287	210,287	-
Special assessment issuance	-	-	414,000	414,000
Total other financing sources (uses)	-	210,287	624,287	414,000
Net change in fund balance	$ (1,653,491)	$ (1,149,454)	(273,428)	$ 876,026
Fund Balance				
Beginning of year			9,881,443	
Change in accounting principle (Note 9)			3,413	
Beginning of year, restated			9,884,856	
End of year			$ 9,611,428	

See notes to financial statements.

Independent School District No. 879
Statement of Fiduciary Net Position
June 30, 2020

	Custodial Fund
Assets	
Current	
Cash and investments	$ 46,252
Net Position	
Restricted for scholarships	3,450
Restricted for other purposes	42,802
	$ 46,252

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2020

	Custodial Fund
Additions	
Other local revenues	$ 72,577
Deductions	
Scholarships	1,750
Pupil support services	52,052
Total deductions	53,802
Change in net position	18,775
Net Position	
Beginning of year	30,910
Change in accounting principle (Note 9)	(3,433)
Beginning of year, restated	27,477
End of year	$ 46,252

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

Joint Venture

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 8.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The custodial fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Fiduciary Fund:

Custodial Fund – This fund is used to account for resources received and held by the District to be used in making scholarship awards, theater, concerts in the park, county conferences, and youth assistance programs.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Cash and investments at June 30, 2020, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF), shares in MNTrust and MNTrust Term series. MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2019, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2020. The remaining portion of the levy will be recognized when measurable and available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Hennepin and Wright Counties are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 50 years for land improvements, buildings, machinery and equipment, and vehicles.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

L. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences
Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

N. Pensions
For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

O. Risk Management
The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2020.

P. Fund Equity
In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaids and inventory.

- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions.

- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish, modify, or rescind a commitment must be made by the School Board.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity

- Assigned Fund Balances – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.

- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 12% of operating expenditures.

Q. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

R. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

S. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. This data has been restated where necessary for comparable classifications.

T. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Information (Continued)

5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2020, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2020, the District had the following pooled deposits:

Checking	$ 447,118
Certificates of deposit	5,600,000
Total deposits	$ 6,047,118

B. Investments

1. District Governmental Funds Pooled

As of June 30, 2020, the District had the following pooled investments:

	Fair Value	Less Than One Year	Moody's/S&P Ratings
MSDLAF - Liquid Class	$ 2,507,740	$ 2,507,740	AAAm
MSDLAF - Max Class	5,271,796	5,271,796	AAAm
MNTrust IS Account Balance	665,362	665,362	AAAm
MNTrust Term Series	1,500,000	1,500,000	AAA
Total investments	$ 9,944,898	$ 9,944,898	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

2. District Governmental Funds Not Pooled

As of June 30, 2020, the District had the following pooled investments for the G.O. School Building Bonds, Series 2016A:

	Fair Value	Less Than One Year	Moody's/S&P Ratings
MNTrust IS Account Balance	$ 88,385	$ 88,385	AAAm

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law. The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments.

Custodial Credit Risk – Investments: For investments, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

C. Summary of Deposits and Investments

Summary of deposits and investments as of June 30, 2020:

Deposits (Note 3.A.)	$ 6,047,118
Petty cash	600
Investments (Note 3.B.)	10,033,283
Total deposits and investments	$ 16,081,001

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Summary of Deposits and Investments

Deposits and investments are presented in the June 30, 2020, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 16,034,749
Statement of Fiduciary Net Position	
Cash and investments - custodial fund	46,252
Total deposits and investments	$ 16,081,001

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,022,151	$ -	$ -	$ 1,022,151
Construction in progress	51,679,601	-	51,679,601	-
Total capital assets not being depreciated	52,701,752	-	51,679,601	1,022,151
Capital assets being depreciated				
Improvements	5,950,987	76,600	-	6,027,587
Buildings	43,990,103	52,139,842	-	96,129,945
Equipment	2,900,671	312,738	26,477	3,186,932
Total capital assets being depreciated	52,841,761	52,529,180	26,477	105,344,464
Less accumulated depreciation for				
Improvements	1,726,038	284,409	-	2,010,447
Buildings	18,826,829	1,458,290	-	20,285,119
Equipment	1,630,038	293,810	26,477	1,897,371
Total accumulated depreciation	22,182,905	2,036,509	26,477	24,192,937
Total capital assets being depreciated, net	30,658,856	50,492,671	-	81,151,527
Governmental activities, capital assets, net	$ 83,360,608	$ 50,492,671	$ 51,679,601	$ 82,173,678

NOTE 3 – CAPITAL ASSETS

Depreciation expense for the year ended June 30, 2020, was charged to the following functions:

Administration	$ 42,392
Elementary and secondary regular instruction	17,743
Special education instruction	571
Pupil support services	5,634
Sites and buildings	507,757
Community service	4,121
Unallocated	1,458,291
Total depreciation expense	$ 2,036,509

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including						
Refunding bonds						
G.O. Bonds, series 2008C	07/01/08	3.10%-4.10%	$ 980,000	02/01/24	$ 320,000	$ 75,000
G.O. School Refunding Bonds, series 2015A	04/08/15	3.00%-5.00%	13,140,000	02/01/25	7,165,000	1,300,000
G.O. School Building Bonds, series 2016A	02/18/16	2.75%-4.00%	62,900,000	02/01/36	57,750,000	1,460,000
G.O. Alternative Facilities Bonds, series 2017A	09/21/17	2.00%-3.00%	3,390,000	02/01/28	2,760,000	310,000
Total G.O. bonds					67,995,000	3,145,000
Premium on bonds payable					2,821,850	-
Capital leases payable					727,501	261,834
Special assessments payable					400,200	13,800
Vacation payable					54,090	54,090
Total all long-term liabilities					$ 71,998,641	$ 3,474,724

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

The bond obligations are paid from the Debt Service Fund. Vacation and capital leases are paid from the General Fund.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 71,010,000	$ -	$ 3,015,000	$ 67,995,000
Premium on bonds payable	3,121,964	-	300,114	2,821,850
Capital leasespayable	975,764	-	248,263	727,501
Special assessments payable	-	414,000	13,800	400,200
Vacation payable	53,535	129,321	128,766	54,090
Total long-term liabilities	$ 75,161,263	$ 543,321	$ 3,705,943	$ 71,998,641

C. Debt Payment Schedule

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds Principal	Interest	Total
2021	$ 3,145,000	$ 2,138,353	$ 5,283,353
2022	3,285,000	2,013,303	5,298,303
2023	3,395,000	1,882,663	5,277,663
2024	3,545,000	1,739,980	5,284,980
2025	3,680,000	1,606,663	5,286,663
2026-2030	20,775,000	6,099,171	26,874,171
2031-2035	24,760,000	2,713,765	27,473,765
2036	5,410,000	81,150	5,491,150
Total	$ 67,995,000	$ 18,275,046	$ 86,270,046

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of $23,950 for each of the 15 years of the agreement.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	
2021	$ 283,082
2022	283,082
2023	212,312
Total lease payments	778,476
Less amount representing interest	(50,975)
Present value of capital lease	$ 727,501

The assets acquired with the capital leases have a cost of $3,178,525 and accumulated depreciation of $778,739 for a net value of $2,399,786.

D. Special Assessment
The District is obligated to pay special assessments to the City of Delano for a watermain relocation. The minimum annual principal and interest payments required to retire the assessment are as follows:

Year Ending	Special Assessments		
June 30,	Principal	Interest	Total
2021	$ 13,800	$ 12,708	$ 26,508
2022	18,400	12,293	30,693
2023	18,400	11,742	30,142
2024	18,400	11,189	29,589
2025	18,400	10,638	29,038
2026-2030	92,000	44,907	136,907
2031-2035	115,000	29,354	144,354
2036-2039	105,800	9,441	115,241
Total	$ 400,200	$ 142,272	$ 542,472

NOTE 5 –FUND BALANCES

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

NOTE 5 –FUND BALANCES (CONTINUED)

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	$ 7,632	$ -	$ -	$ 49,980	$ 57,612
Prepaids items	35,393	-	-	773	36,166
Total nonspendable	43,025	-	-	50,753	93,778
Restricted/reserved for					
Student Activities	30,190	-	-	-	30,190
Scholarships	2,730	-	-	-	2,730
Staff Development	219,275	-	-	-	219,275
Operating Capital	898,044	-	-	-	898,044
Area Learning Center	19,004	-	-	-	19,004
Safe School Crime	76,254	-	-	-	76,254
Long-term Facilities Maintenance	1,027,746	-	-	-	1,027,746
Medical Assistance	30,134	-	-	-	30,134
Debt Service	-	1,099,973	-	-	1,099,973
Capital Projects	-	-	84,458	-	84,458
Food Service	-	-	-	225,060	225,060
Community Service	-	-	-	4,078	4,078
Community Education	-	-	-	123,259	123,259
Early Childhood and Family Education	-	-	-	71,580	71,580
School Readiness	-	-	-	19,991	19,991
Adult Basic Education	-	-	-	966	966
Total restricted/reserved	2,303,377	1,099,973	84,458	444,934	3,932,742
Committed for					
Separation/retirement Benefits	75,731	-	-	-	75,731
Assigned for					
Donated Funds	460,797	-	-	-	460,797
Student Activities Carryover	578	-	-	-	578
Q Comp	253,776	-	-	-	253,776
Providing Transformative Learning Experiences	14,654	-	-	-	14,654
Total assigned	729,805	-	-	-	729,805
Unassigned	6,459,490	-	-	-	6,459,490
Total reserved fund balance	$ 9,611,428	$ 1,099,973	$ 84,458	$ 495,687	$ 11,291,546

NOTE 5 –FUND BALANCES (CONTINUED)

Fund Equity (Continued)
Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Scholarships – This balance represents available resources for the scholarship funds.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subd. 1).

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at lease 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest, and related costs.

NOTE 5 –FUND BALANCES (CONTINUED)

Fund Equity (Continued)
Restricted for Capital Projects – This balance represents resources available for the acquisition or construction of major capital projects.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education. This would include all state aid and any grants or local funding used in support of ABE.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB), and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities Carryover – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balances for unspent Q Comp dollars.

Assigned for Providing Transformative Learning Experiences – This balance represents resources segregated from unassigned fund balances for providing transformative learning experiences.

NOTE 5 –FUND BALANCES (CONTINUED)

Fund Equity (Continued)
Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total net position restricted for food service and community service.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2020, was $3,165,260. The components of pension expense are noted in the following plan summaries.

The General Fund and Community Service Fund typically liquidate the liability related to the pensions.

Teachers' Retirement Association

A. Plan Description
The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

B. Benefits Provided
TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by *Minnesota Statute* and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Benefits Provided (Continued)

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)
Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

C. Contribution Rate
Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2018, June 30, 2019, and June 30, 2020, were:

	June 30, 2018		June 30, 2019		June 20, 2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.71%	11.0%	11.92%
Coordinated	7.5%	7.5%	7.5%	7.71%	7.5%	7.9%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 403,300
Deduct employer contributions not related to future contribution efforts	(688)
Deduct TRA's contributions not included in allocation	(486)
Total employer contributions	402,126
Total non-employer contributions	35,588
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 437,714

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

D. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2019
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)
The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2020, the District reported a liability of $13,461,932 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2112% at the end of the measurement period and 0.2063% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	$ 13,461,932
State's proportionate share of the net pension liability associated with the District	1,191,389

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

For the year ended June 30, 2020, the District recognized pension expense of $2,673,925. It recognized $90,560 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2020, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,795	$ 321,517
Net difference between projected and actual earnings on plan investments	-	1,091,523
Changes of assumptions	10,921,999	17,431,237
Changes in proportion	703,388	-
Contributions to TRA subsequent to the measurement date	991,603	-
Total	$ 12,618,785	$ 18,844,277

$991,603 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	$ 898,069
2022	91,176
2023	(4,808,644)
2024	(3,424,036)
2025	26,340
Total	$ (7,217,095)

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease (6.5%)	Current (7.5%)	1% increase (8.5%)
$ 21,461,612	$ 13,461,932	$ 6,866,315

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

H. Pension Plan Fiduciary Net Position
Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

Public Employees' Retirement Association

A. Plan Description
The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

B. Benefits Provided
PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were $325,261. The District's contributions were equal to the required contributions as set by state statute.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of $3,405,726 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $105,829. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0616% at the end of the measurement period and 0.0584% for the beginning of the period.

District's proportionate share of net pension liability	$ 3,405,726
State of Minnesota's proportionate share of the net pension liability associated with the School	105,829
Total	$ 3,511,555

For the year ended June 30, 2020, the District recognized pension expense of $491,335 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $7,926 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2020, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 92,211	$ -
Changes in actuarial assumptions	-	257,113
Difference between projected and actual investments earnings	-	325,712
Change in proportion	133,143	17,696
Contributions paid to PERA subsequent to the measurement date	325,261	-
Total	$ 550,615	$ 600,521

The $325,261 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2021	$ (139,800)
2022	(220,761)
2023	(20,093)
2024	5,487
Total	$ (375,167)

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 %	Per year
Active member payroll growth	3.25 %	Per year
Investment rate of return	7.50 %	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:
- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:
- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)
The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
Private markets	25.0	5.90
Fixed income	20.0	0.75
International equity	17.5	5.90
Cash equivalents	2.0	0.00
Total	100 %	

F. Discount Rates
The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity
The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 5,598,830	$ 3,405,726	$ 1,594,883

H. Pension Plan Fiduciary Net Position
Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by PIEP. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefit Provided

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. The General Fund, Food Service Fund, and Community Service Fund typically liquidate the liability related to OPEB.

C. Members

As of July 1, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	28
Active employees	290
Total	318

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with PIEP. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2020, the District contributed $367,657 to the plan.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Salary increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.25% in 2019 grading to 5.00% over four years
Mortality Assumption	RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2019 – June 30, 2020.

The discount rate used to measure the total OPEB liability was 3.1% based on the 20-year municipal bond yield.

F. Total OPEB Liability

The District's total OPEB liability of $4,317,182 was measured as of July 1, 2018 and was determined by an actuarial valuation as of that date.

Changes in the total OPEB liability are as follows:

	Total OPEB Liability (a)
Balances at July 1, 2019	$ 4,118,574
Changes for the year	
Service cost	308,361
Interest cost	148,759
Assumption changes	97,912
Benefit payments	(356,424)
Net changes	198,608
Balances at June 30, 2020	$ 4,317,182

H. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.1% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.1%)	Current (3.1%)	1% increase (4.1%)
Total OPEB liability	$ 4,623,029	$ 4,317,182	$ 4,026,050

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates. The decrease in healthcare cost trend rates is over six years.

	1% decrease (5.2% decreasing to 4.0%)	Current (6.2% decreasing to 5.0%)	1% increase (7.2% decreasing to 6.0%)
Total OPEB liability	$ 4,042,145	$ 4,317,182	$ 4,648,722

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of $470,935. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses	$ 75,083	$ -
Changes of assumptions	88,120	42,896
Subsequent contributions	341,531	-
Total	$ 504,734	$ 42,896

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

$341,531 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020. Other amounts will be amortized in future years as follows:

Year Ending June 30,	
2021	$ 13,815
2022	13,815
2023	13,815
2024	13,815
2025	13,815
Thereafter	51,232
Total	$ 120,307

NOTE 8 – COMMITMENTS

Joint Powers

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2020, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities. As a result, changes were required for the funds of the Scholarship Fund to classify the fund as a custodial fund under the new accounting guidance. These adjustments affected beginning fund balance for the General Fund in the amount of $3,413, beginning fund balance for the nonmajor Community Service Fund in the amount of $20, beginning net position for governmental activities in the amount of $3,433, and beginning net position for fiduciary activities in the amount of ($3,433).

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 879
Notes to the Required Supplementary Information

TRA Retirement Fund

2019 Changes
Changes in Actuarial Assumptions
- None

2018 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.

TRA Retirement Fund (Continued)

2017 Changes (Continued)
Changes in Actuarial Assumptions (Continued)

- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes
Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes
Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Independent School District No. 879
Notes to the Required Supplementary Information

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State's special funding contribution was changes prospectively, requiring $16 million due per year through 2031.

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The State's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

Independent School District No. 879
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6.0 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Post Employment Health Care Plan

2019 Changes
Changes in Actuarial Assumptions
- The discount rate was changed from 3.50% to 3.10%.

2018 Changes
Changes in Actuarial Assumptions
- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40% to 3.50%.
- The trend on the Medicare Supplement Rate was changed from the health care trend rates to 4% per year.
- The percentage of future retirees not eligible for a subsidy who are assumed to continue on one of the District's medical plans post-employment was decreased from 50% to 40%.
- The percentage of future spouses eligible for a subsidy who are assumed to continue on one of the District's medical plans after their spouses' retirement was increased from 15% to 25%.

2017 Changes
Changes in Actuarial Assumptions
- Changes of assumptions and other inputs reflect a change in the discount rate from 3.0% in 2016 to 3.4% in 2017.

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SUPPLEMENTARY INFORMATION

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ending June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 10, 2020.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control as described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control that we consider to be a significant deficiency, Audit Finding 2020-001.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Findings
The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota
November 10, 2020

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated November 10, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting, and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Minneapolis, Minnesota
November 10, 2020

(Independent School District No. 879
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Audit Finding 2020-001 – Lack of Segregation of Accounting Duties

During the year ended June 30, 2020, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The District Accountant enters bank deposit amounts in Skyward, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.

3. Official Responsible for Ensuring CAP
   Matthew Schoen, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.